

## **The complaint**

Ms C complains that NewDay Ltd lent to her irresponsibly.

## **What happened**

In August 2015 Ms C opened a store card account with NewDay. She had an account limit of £1,000 which was increased to £1,300 in February 2016.

Ms C says that NewDay shouldn't have lent to her because she couldn't afford it. She says if NewDay had done the checks on her which it should have done it would have realised she had a lot of debt and couldn't afford any more.

NewDay says that it did all the necessary and proportionate checks and these showed that Ms C could afford the credit that was extended to her.

Our adjudicator thought that NewDay shouldn't have lent to Ms C. They thought Ms C was so indebted elsewhere that NewDay should have realised she would struggle with any more debt. Our adjudicator thought that NewDay's checks showed that Ms C had very little disposable income and would have struggled to make her repayments on the card in a sustainable way. Our adjudicator said that NewDay should refund any interest and charges paid by Ms C.

NewDay did not comment on the view of the adjudicator, saying it preferred to wait for the outcome of another complaint made by Ms C which has not yet been considered and will be dealt with separately. NewDay were told on 8 July that this case would be referred to an ombudsman and that it had until 22 July to make any comments they wished to have considered. NewDay did not respond substantively.

As NewDay has not agreed, the case has been passed to me to make a decision.

## **What I've decided – and why**

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when considering Ms C's complaint.

NewDay needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Ms C could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts, Ms C's borrowing history and her income and expenditure.

NewDay says its credit check results didn't show anything negative to suggest it would have been unreasonable to have provided Ms C with the credit. It says it asked her about her income and it also had information about other credit she had elsewhere and that none of this caused concern. It points also to the fact Ms C managed her account well and incurred only one late fee during the life of the account.

However, I think that the results of NewDay's checks should have been a cause for concern. Ms C told NewDay that she earned only around £1,250 net a month – although she described herself as a housewife/homemaker. Her accommodation costs were £342 a month, which seems unusually low although it may have been shared with her partner, who she declared had the same income as her. She declared monthly living costs of £800 which, after her essential expenses were paid left her with only £108 disposable income a month.

While NewDay noted that Ms C had nine active credit accounts it noted no defaults or arrears, no payday loans and no CCJs, it did not know how Ms C's unsecured debt was structured and, had the entire sum been owed via revolving credit accounts, sustainable monthly repayments at 5% would have left Ms C with almost nothing each month.

So while NewDay's check may have been reasonable I think it should have sought a better understanding of her financial situation before lending to her. It should have queried her income in light of her declared occupation and how she was meeting her existing credit costs from her limited income. I think it should have been evident to NewDay that Ms C wouldn't have had the capacity to sustainably repay the new account. It follows that I agree with our adjudicator that NewDay was wrong to lend to Ms C.

### **Putting things right**

As I don't think NewDay ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Ms C should pay back the amounts she has borrowed. Therefore, NewDay should:

- Rework the account removing all interest and charges that have been applied.
- If the rework results in a credit balance, this should be refunded to Ms C along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement. NewDay should also remove all adverse information regarding this account from Ms C's credit file.
- Or, if after the rework there is still an outstanding balance, NewDay should arrange an affordable repayment plan with Ms C for the remaining amount. Once Ms C has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

\*HM Revenue & Customs requires NewDay to deduct tax from any award of interest. It must give Ms C a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

This compensation is standard redress in a case of this type where it is considered that an account should not have been opened in the first place.

### **My final decision**

I uphold Ms C's complaint and direct NewDay Ltd pay redress as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms C to accept or reject my decision before 24 August 2022.

Sally Allbeury  
**Ombudsman**